

Service Date: October 19, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * *

IN THE MATTER Of The Application)
Of The TOWN OF WIBAUX For Authority)
To Increase Sewer Rates And Charges.)

UTILITY DIVISION
DOCKET NO. 82.12.70
PROPOSED ORDER NO. 5022

APPEARANCES

FOR THE APPLICANT:

Rod Barnaby, Town Clerk, Town of Wibaux, Wibaux, Montana 59353

FOR THE COMMISSION:

Opal Winebrenner, Staff Attorney, 1227 - 11th Avenue, Helena, Montana 59620

BEFORE:

Danny Oberg, Commissioner, Presiding Officer
Thomas J. Schneider, Chairman

The Hearing Examiners, having taken evidence and being fully advised in the premises, makes the following Proposed Findings of Fact, Conclusions of Law and Order:

BACKGROUND

1. On December 29, 1982, the Town of Wibaux (Applicant or Town) filed an application with this Commission for authority to increase rates and charges for sewer service to its customers in the Wibaux, Montana area. The Applicant requested an average increase of approximately 230 percent which would result in an annual revenue increase of approximately \$11,000.
2. On February 23, 1983 this Commission issued a "Notice of Opportunity For Public Hearing" and a public hearing was requested.

3. On July 12, 1983, pursuant to notice of public hearing, a hearing was held in the Town Council Chambers, Town Hall, Wibaux, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed setter rate adjustment.

ANALYSIS AND FINDINGS OF FACT

4. At the public hearing, the Applicant presented the testimony and exhibits of Rod Barnaby, Town Clerk for the Town of Wibaux. Mr. Barnaby testified relative to: the financial condition of the utility, necessary capital improvements to the sewer system and the allocation of general expenses between the water and sewer utilities.

5. Two public witnesses appeared and presented testimony at the public hearing, the major concern expressed by these witnesses was whether an actual need for increased rates existed.

CAPITAL IMPROVEMENTS

6. At the public hearing, Mr. Barnaby testified that engineering studies had been conducted to determine the condition of the existing utility plant in service and what utility plant improvements were necessary to insure continued adequate provision of service. The Engineer's report identified five (5) capital improvements that should be undertaken to insure continued reliable and adequate service to consumers connected to the Wibaux sewer system. The following table indicates the recommended capital improvements and their estimated cost:

Table 1

<u>Capital Improvements (Existing System)</u>	<u>Cost</u>
Treatment Plant Chlorine Repairs	\$12,000
Manhole Rehabilitation and TV Inspection	<u>\$13,000</u>
Total Improvement Costs (Existing)	\$25,000
<u>Future Capital Improvements</u>	
Lift Station	\$ 40,250
Collection Line	\$272,170
Lagoons and Control Building	<u>\$318,600</u>
Total Future Improvement Costs	\$631,020
TOTAL COST ALL IMPROVEMENTS	<u>\$656,020</u>

7. Concerning the financing of the capital improvements listed in Table 1, Mr. Barnaby stated the Town was attempting to secure Community Development Block Grant funds for construction of some of the improvements and that the remaining ones would be financed through the issuance of General Obligation Bonds.

Based upon the financing vehicle described by Mr. Barnaby for the construction of the proposed capital improvements, the Commission finds that it does not have under consideration in this Docket a revenue requirement for funding of these improvements because the sewer utility subscribers will not be the parties directly responsible for payment of the debt incurred for construction.

The Commission does not recommend issuance of General Obligation Bonds for the construction of utility plant because repayment of the debt is based on a general tax levy against all property and therefore does not necessarily result in the consumer receiving the benefit of the sewer service paying his proportionate share of the construction expense. The Commission recommends that the Town examine the possibility of issuing Revenue Bonds which will be a debt obligation of the utility. With revenue bond financing, the consumer receiving the benefit of the sewer utility plant and service will be paying for his proportionate share of the construction expense.

FINANCIAL DATA

8. The Applicant submitted financial statements reflecting sewer utility revenue and expense for the last three fiscal years (1981, 1982, 1983).

9. The Applicant operates a utility system that is totally metered, with the exception of 1 or 2 connections, and experiences annual fluctuations in both revenue and expense due to factors affecting the consumption patterns of consumers. In an effort to minimize the affect of consumer consumption factors on a utility's operating revenue and expense, it is the Commission's general policy to use at least a three year average to determine the adequacy of rates. Using this procedure, the Applicant's average revenue generation and operating expenses for FY 1981 through FY 1983 are as follows:

Table 2

<u>Fiscal Year</u>	<u>Revenue Generation</u>	<u>Operating Expenses</u>
1981	\$4,332	\$3,768
1982	\$4,483	\$4,630
1983	\$4,537	\$5,011
Average	\$4,451	\$4,470

The preceding Table indicates that on an average basis, the Applicant is sustaining a net operating loss of \$19 annually.

10. Mr. Barnaby, on cross-examination, stated that it has been the past practice of the Town to charge the water utility 100 percent of the Water Superintendent's salary, 25 percent of the Town Clerk's salary, and to make no charge against the sewer utility for these salaries even though these employees devote time to operation of the sewer utility.

Mr. Barnaby conceded on cross-examination and by reference to a letter sent to this Commission by the prior Town Clerk, Marvel Cale, relating to the requested rate increase that the operating expenses of the water utility should be reduced by \$6,500 and the operating expenses of the sewer utility increased by \$6,500. This revision would fairly reflect the division of labor for the Town Clerk and the Water Superintendent between the water and sewer utilities.

11. The rates, as proposed by the Applicant in this Docket, will generate total annual revenues of approximately \$15,500. To determine the annual revenues that would be generated under the proposed rates, the Applicant had a computer analysis done using average consumption information obtained from its records, and had the proposed rates applied to that consumption level. The Commission finds the method used by the Applicant to determine revenue generation under the proposed rates to be reasonable and therefore accepts the calculation.

12. Based upon Findings of Fact Nos. 9, 10 and 11 the Commission finds that the Applicant's proposed rates will allow the sewer utility to earn a net operating income of approximately \$4,530 annually, computed as follows:

Operating Revenue	\$15,500
Operating Expense (Including Salary)	<u>\$10,970</u>
NET INCOME (Proposed Rates)	\$ 4,530

MISCELLANEOUS

13. During his testimony Mr. Barnaby stated that the Town's rationale for requesting an increase in rates was to insure that the sewer utility would generate sufficient revenue to cover the cost of operating and maintaining the sewer utility and to generate sufficient net income to allow the Town to accumulate a reserve for replacement of minor capital items.

If the Commission were to allow the rates as proposed by the Applicant to become effective the sewer utility would generate approximately \$4,530 of net operating income. It is not the Commission's general policy to allow such a large percentage of a municipal utility's revenue to flow to net income. In this instance, given the deteriorated condition of the utility's plant and the fact that items 1 and 2 of Table 1 could be paid for through the utilization of this revenue, the Commission finds the net income level to be acceptable.

14. Based upon the preceding Findings of Fact, the Commission finds the Applicant's proposed rate increase should be approved.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Title 69, Chapters 3 and 7, MCA.

2. The Commission afforded all interested parties a notice and an opportunity to participate in this proceeding. Section 69-3-303, MCA.

3. The rates approved herein are just and reasonable. Title 69, Chapter 3, MCA.

PROPOSED ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Town of Wibaux shall file tariffs, consistent with the Findings of Fact herein, generating an annual revenue increase of \$11,000.

2. Pursuant to ARM 38.2.4802, this is a Proposed Order. Any party shall have an opportunity to file exceptions to this initial decision, present briefs and make oral arguments before the entire Commission, provided such exceptions, briefs and requests for oral argument

are presented to this Commission within twenty (20) days from the service date of this proposed order.

3. A full, true and correct copy of this Proposed Order will be sent to the Applicant and other parties.

DONE at Helena, Montana, this 12th day of October, 1983.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

DANNY OBERG

THOMAS J. SCHNEIDER

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.